

# **Is There a Need for a Statewide Teacher Health Insurance Plan?**

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House Appropriations Committee Retreat  
November 14, 2012**



- ☒ Overview of Recent General Assembly Proposals and JLARC Report
- ☐ Review of State Reimbursement for Health Insurance Cost in K-12
- ☐ Current Purchasing Practices for Schools
- ☐ Overview of The Local Choice (TLC) Plan
- ☐ Comparison of Virginia's Public Employee Health Care Premiums Costs
- ☐ Conclusions



# Continuous Discussion in Recent Years on Merits of a Statewide Health Insurance Plan for Teachers

- 2009 General Assembly Session
  - HB 2632 (Del. Shannon) directed the Department of Human Resource Management (DHRM) to develop a plan to implement an optional statewide insurance program for school board employees similar to the state employee plan
    - Bill was amended by the House General Laws Committee to include other local government employees and adopted by the House, but was left in Senate Finance
  - SB 850 (Item 86 #1s) a SFC budget amendment directed DHRM to develop a mandatory insurance program for schools system and local government employees (amendment not in adopted budget)
    - Allowed localities and school board to make a one-time irrevocable election to opt-out of program subject to policies and procedures established by the DHRM



# Continuous Discussion in Recent Years on Merits of a Statewide Health Insurance Plan for Teachers

- 2010 General Assembly Session
  - HJR 60 (Del. Cox, M.K.) directed JLARC to study the feasibility and effectiveness of requiring school divisions to contract collectively in certain areas of procurement
    - JLARC presented their findings just prior to the beginning of the 2011 Session: 'Use of Cooperative Procurement by Virginia School Divisions'
  - SFC budget amendment provided \$100,000 to DHRM to design of a statewide program of health insurance for employees of local school divisions (amendment not in adopted budget)
    - Language allowed for the option to include other local employees if analysis indicated new program would negatively impact Local Choice program



# JLARC Report Focused on All Types of Goods and Services Purchased By School Divisions

- JLARC's review categorized cooperative procurement into two general ways
  - Joint Purchase – two or more groups jointly award a contract; or one group buys from or on behalf of another group
  - Open Contract – a purchase made off of an existing contract (state contract was the most common)
- The report identified two major sources of savings that could be realized by using either of the cooperative procurements
  - Administrative savings related to procurement and contract management
  - Lower cost per unit charges as a result of increased buying power – 'economy of scale'
- The general findings was that the state may want to take steps to encourage cooperative procurement by schools for all types of purchases
  - JLARC went further to say that a mandate for any specific purchase 'was not appropriate' given the diversity of needs/requirements determined by individual schools
  - However, it was noted that cost was not always primary factor in purchasing decisions



# JLARC Report Identified Health Insurance as the Largest Continuous Procurement and an Area for Potential Savings

- Out of the \$2.6 billion in recurring purchases, school divisions reported spending a total of \$948 million for health insurance in FY 2009
  - Over 50% of expenditures (spent by 72 of the 132 divisions) used some form of cooperative procurement
- JLARC estimated that schools could potentially save between \$47 million and \$66 million each year from some type of statewide insurance pool for teachers
  - The estimate was based on a 5% - 7% savings range from the new mandatory Oregon program, and the analysis done for Michigan and Minnesota (neither state implemented their proposed plans)
  - Issues which prevented Michigan from implementing their plan included concerns about start-up costs and the loss of local flexibility
- JLARC's recommendation was that the General Assembly may wish to have an actuarial analysis done to determine the total statewide financial impact of including all school and local government employees into the state employee plan



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# Health Insurance Costs are Factored into the State's Standards of Quality Funding Formula

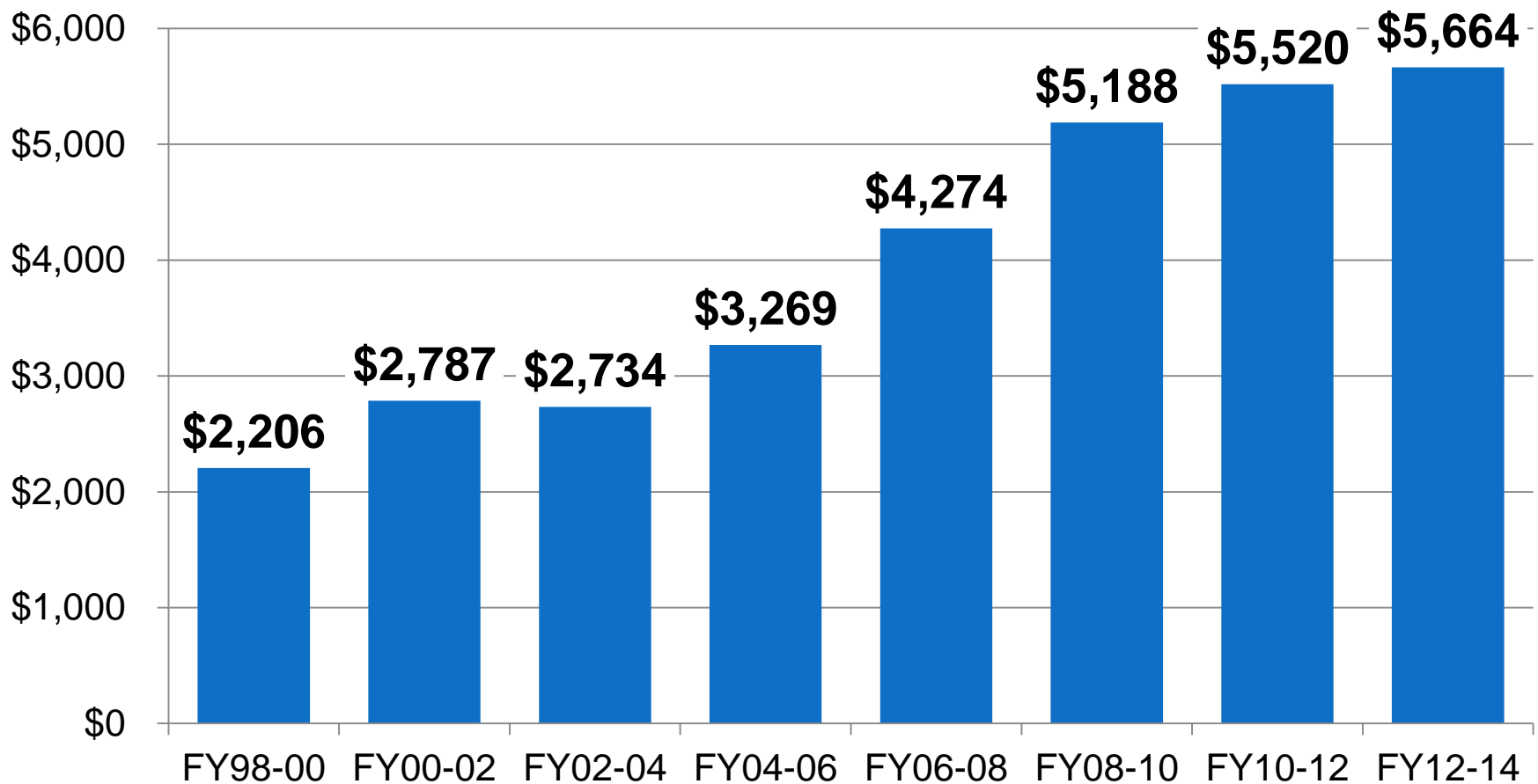
- Since 1986, the state's SOQ formula has included funding for health insurance based on statewide prevailing costs
- Costs are updated every two years during the routine rebenchmarking process based on actual school division expenditures
  - Reported total costs are only the employer's share of health care expenditures
  - All health care plan rates are grouped into three basic types of coverage
    - 1) Employee only; 2) Employee Plus One; and 3) Family
  - DOE calculated a single division-level average from the three grouped premium rates
    - The final statewide premium rate was calculated from weighting the individual division-level averages and then adjusting the rate for inflation

Example: School division's reported data on ASR	Employer Share of Rates for Plans	Employee Only	Employee Plus One	Family	Averaged Premium Rate
		\$4,451	\$6,825	\$11,534	\$7,630
		(\$4,451 + \$6,825 + \$11,534) / 3 =			



# Funded Rates Have Increased 157% Over the Last 8 Biennia

## ***SOQ Funded Health Insurance Premium Rates***





# 2010 Appropriation Act Adjusted Payments to Reflect Teacher Participation Rates

- Until 2010, the methodology used for calculating the statewide health care premium costs included funding for all positions in the SOQ funding formula regardless of whether or not all employees were actually enrolled
- A policy change included in Governor Kaine's 2010-12 introduced budget adjusted the methodology to reflect the actual percentage of employees participating in a division's health care plan and then weighting the averages for the final statewide premium amount
  - Only about 67% of teachers actually participate in their school's health plan

**Example:** Same school division's reported data on ASR and adjusted to reflect percentage of actual participation

Employer Share of Rates & Participation Percentages for Plans	Employee Only	% of Employees	Employee Plus One	% of Employees	Family	% of Employees	Averaged Premium Rate
	\$4,451	55%	\$6,825	26%	\$11,534	19%	<b>\$6,413</b>
	$(\$4,451 \times 55\%) = \$2,448$		$(\$6,825 \times 26\%) = \$1,774$		$(\$11,534 \times 19\%) = \$2,191$		$= \$2,448 + \$1,774 + \$2,191$



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## How School Divisions Buy Their Health Care

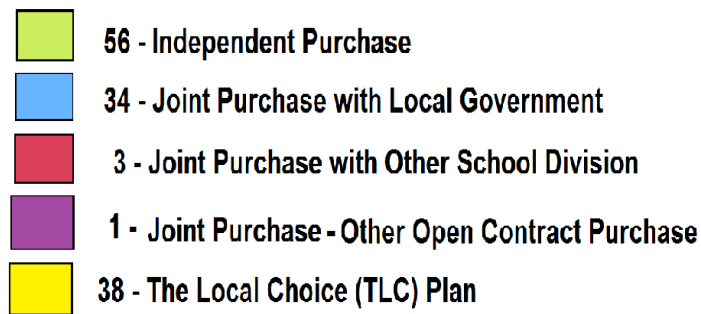
- 2011 Annual School Report data showed that school divisions spent a total of about \$1.1 billion for health insurance

Procurement Type	Expenditures (\$ in millions)	% of Total
Independent Purchase	\$529.8	50.3%
Joint Purchase Types:		
- With Local Government	\$414.8	39.4%
- With Other School Divisions	\$13.2	1.3%
- Other Open Contract or Cooperative	\$1.7	0.2%
The Local Choice (TLC) Plan	\$93.2	8.8%
<b>TOTAL</b>	<b>\$1,052.7</b>	<b>100.0%</b>

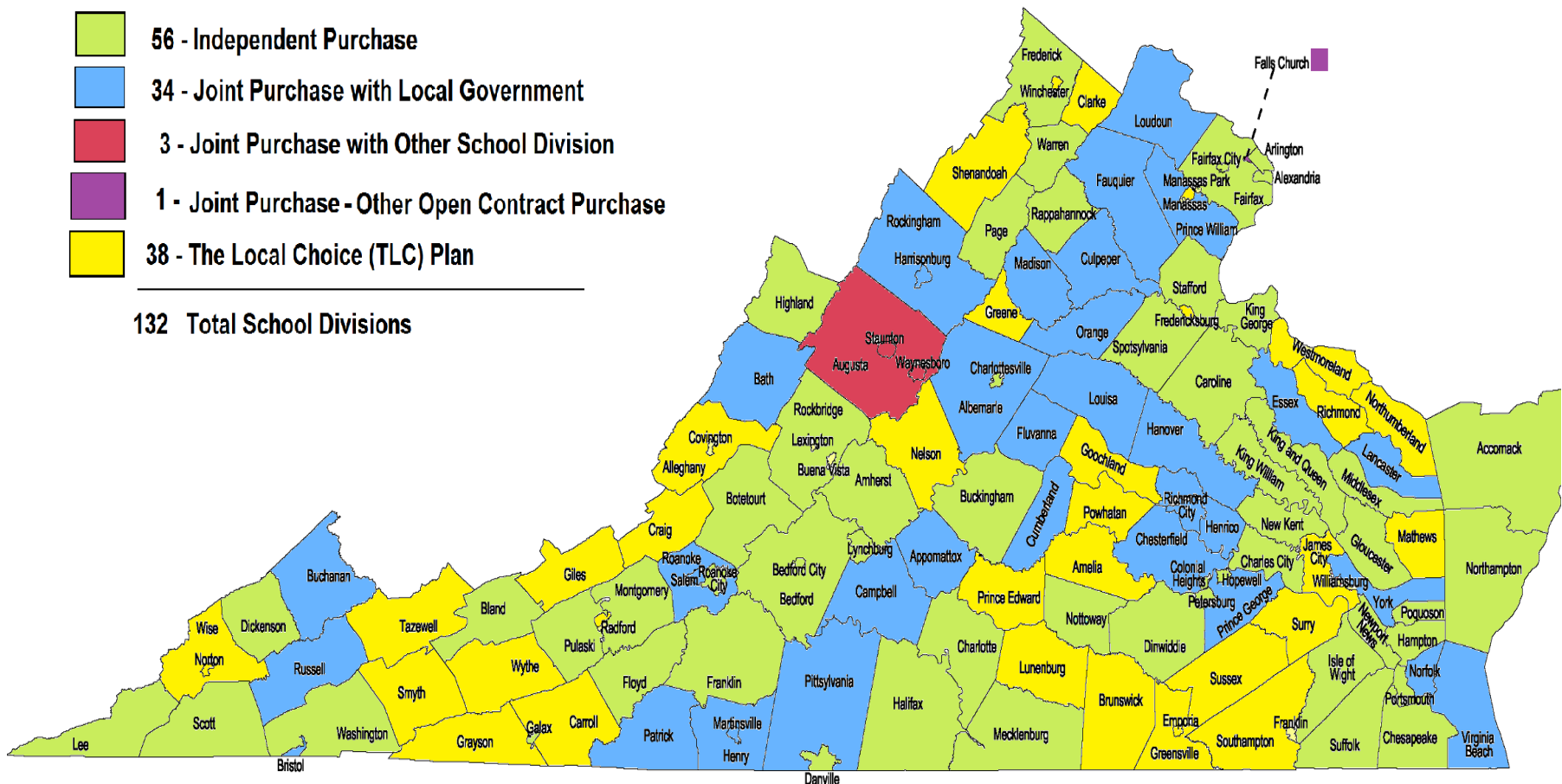


# Statewide Perspective: School Divisions Reported Health Insurance Procurement for FY 2012

## Health Insurance Coverage



**132 Total School Divisions**





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# Since 1990 the State Has Offered a Statewide Plan

- The state-run Local Choice (TLC) Program plan was established by the General Assembly in 1990
  - Statewide self-funded program
  - Exclusively for counties, schools, municipalities and 'political subdivisions'
  - Participation in the program is optional and schools divisions and other political bodies can leave and re-enter program when their contract expires
- Administered by Department of Human Resource Management (DHRM)
  - Request for Proposals (RFPs) for health insurance contracts for state employee plan and TLC are bundled
  - Maximizing market share and purchasing power as recommended by JLARC
- Currently offers a total of six different health care plan options
  - Four statewide self-insured plans offered through Anthem
  - A high deductible health plan
  - A HMO plan offered by Kaiser Permanente in Northern Virginia
- Requires employer to pay at least 80% of the Employee Only coverage
  - No requirement related to dependent coverage if plan has 75% participation or higher
  - Required to contribute 20% of dependent costs if participation is below 75% and for high deductible plan



# Each TLC Plan is Individually Funded

- Premium represents entire funding
  - TLC “operates” like a single large self-funded group and it is not commingled with the state employee health plan
  - Program has provided relatively stable rates, with an average annual premium increase of less than 4.0% since 2008
  - Rate setting is based on the number of members in the plan
    - 1 to 49: Pooled with other similar sized groups
    - 50 to 299: Rates based on demographic factors of members in each plan
    - 300 and more: Based on actual cost experience for that individual group plan
- Currently, 38 school divisions provide employee health insurance through The Local Choice program
  - Participation in the program has grown from 25 in FY 2000 to 38 this year, a net increase of 52%
    - Of the 25 school divisions participating in 2000, 16 have remained in the program, 64%
- Majority of school divisions that participate are in rural areas or have an ADM of less than 5,000 students



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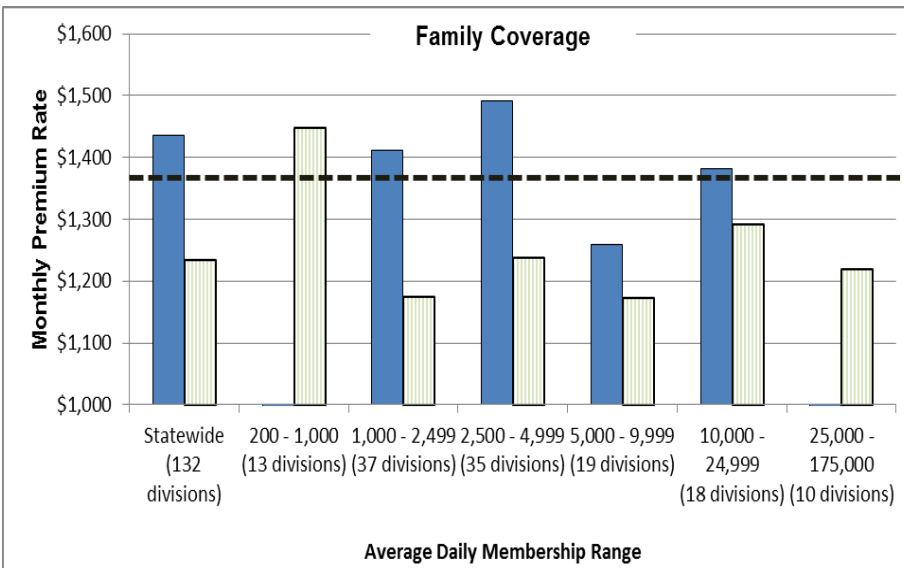
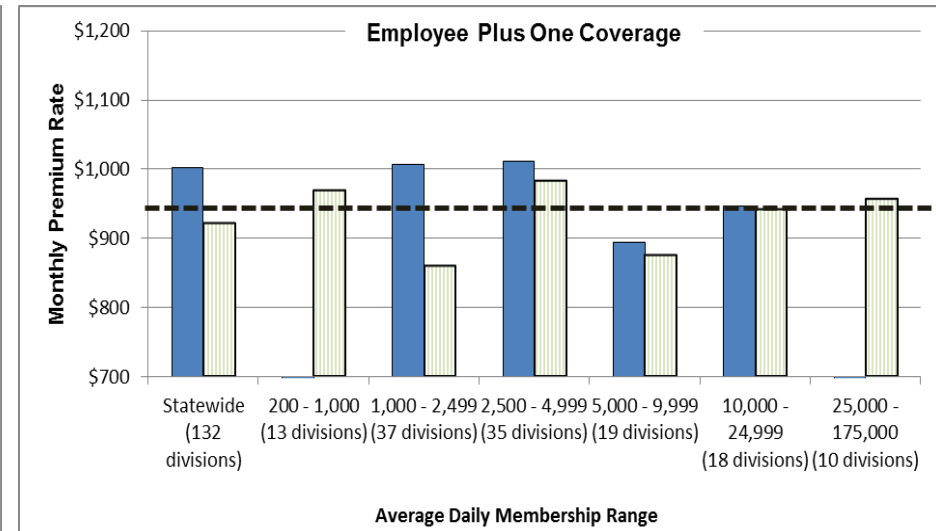
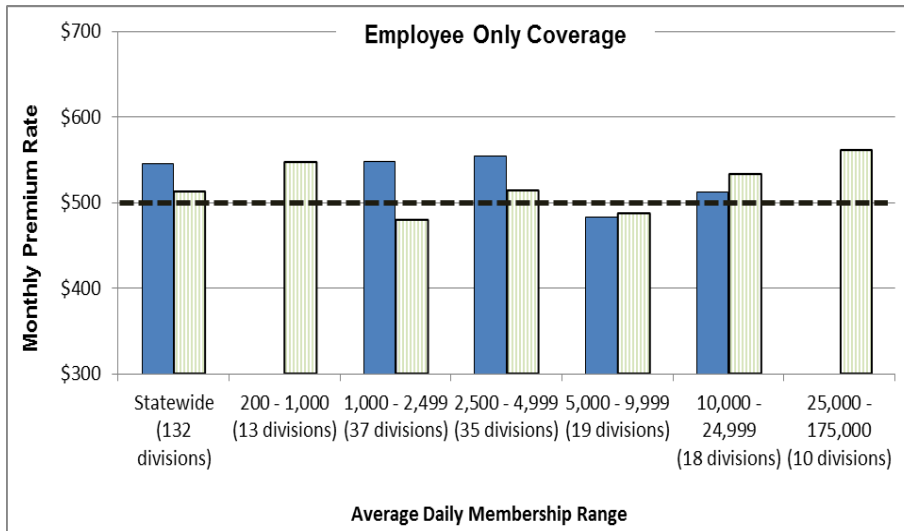
# Comparison of Average FY 2012 Premium Costs by Procurement Type



- The rates between the purchasing procurement types are comparable

	Total Monthly Cost		
	Employee Only	Employee Plus One	Family
Independent Purchase	\$531	\$958	\$1,269
Joint Purchase Types:			
- With Local Government	\$487	\$877	\$1,187
- With Other School Divisions	\$452	\$816	\$1,090
- Other Open Contract or Cooperative	\$526	\$1,011	\$1,404
State's Local Choice Plan (TLC)	\$546	\$1,002	\$1,436



# Average Monthly Premium Rates: Grouped by Coverage Types Within ADM Ranges

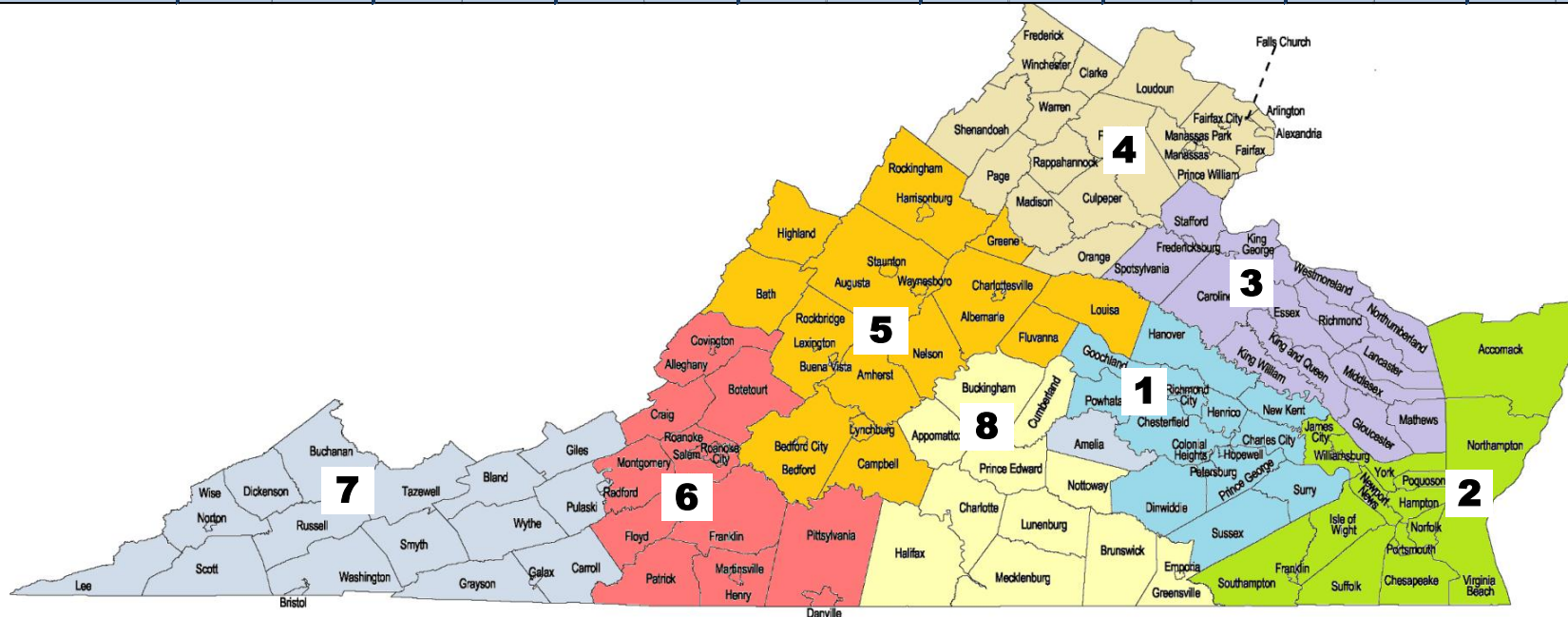


 **TLC Monthly Premium**  
 **All Other Plans Monthly Premium**  
 --- **State Employee Monthly Premium**



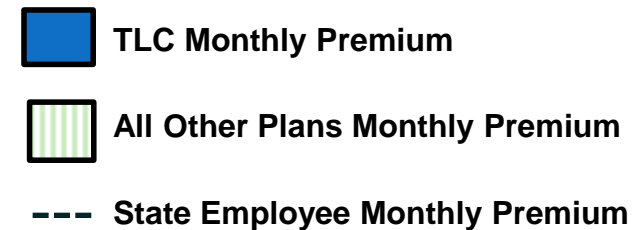
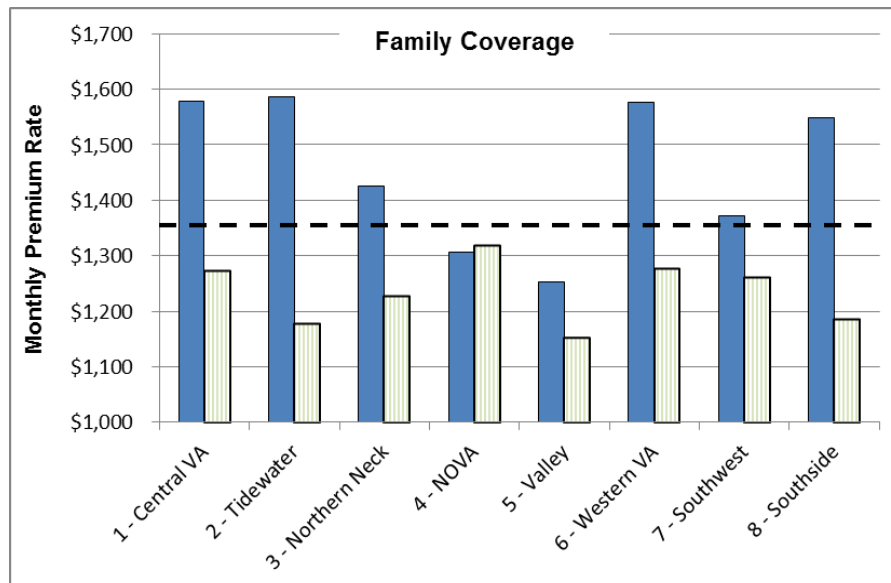
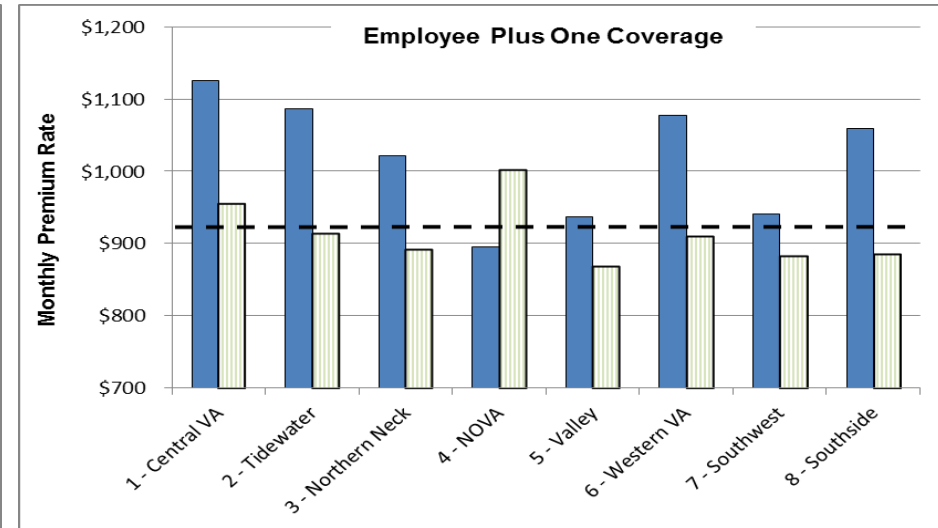
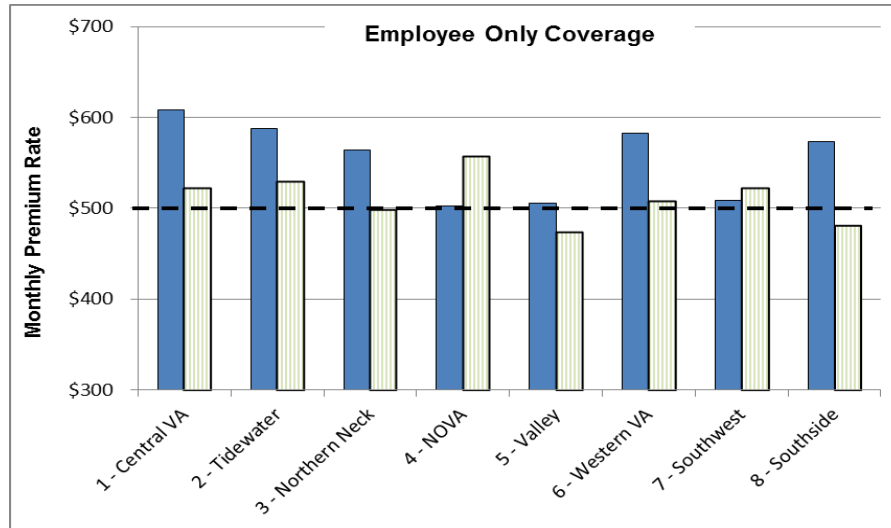
# Statewide Prospective: Percentage of Health Insurance Procurement Spending by Superintendent Region

	Region 1 Central VA		Region 2 Tidewater		Region 3 N Neck		Region 4 NOVA		Region 5 Valley		Region 6 Western VA		Region 7 Southwest		Region 8 Southside	
	# of Div.	%	# of Div.	%	# of Div.	%	# of Div.	%	# of Div.	%	# of Div.	%	# of Div.	%	# of Div.	%
Independent	6	11%	9	53%	10	89%	7	61%	6	27%	6	52%	7	35%	5	53%
All Joint Purchases	5	83%	3	40%	2	2%	7	34%	10	66%	6	43%	3	17%	2	9%
Local Choice (TLC)	4	6%	3	7%	5	9%	5	5%	4	7%	3	5%	9	48%	5	38%
<b>TOTAL Div.</b>	<b>15</b>	<b>100%</b>	<b>15</b>	<b>100%</b>	<b>17</b>	<b>100%</b>	<b>19</b>	<b>100%</b>	<b>20</b>	<b>100%</b>	<b>15</b>	<b>100%</b>	<b>19</b>	<b>100%</b>	<b>12</b>	<b>100%</b>





# Average Monthly Premium Rate: for Each Superintendent Region By Coverage Type





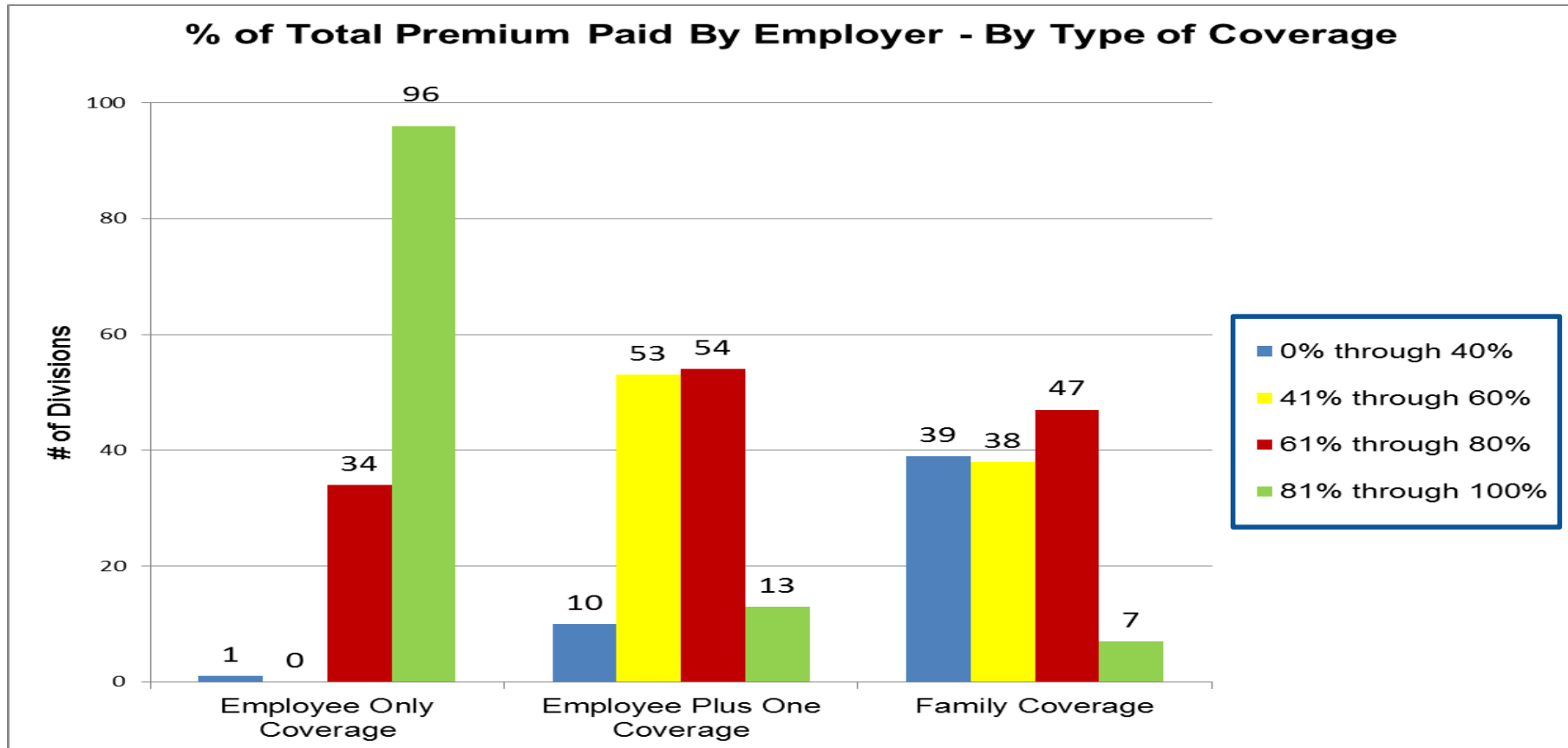
# Comparing Premiums is Complicated Because Several Factors Influence Premium Structures

- The demographics of the teacher workforce are significantly different than the state employee workforce
  - 81% of teachers are female and 19% male
  - Comparatively, the state workforce is approximately 55% female and 45% male
- Most school systems, like the state, offer a variety of plans
  - While most plans offer similar benefits, there are substantial differences in out-of-pocket co-payments and coinsurance policies
- Competition is greater in more urbanized areas
- A complete actuarial analysis would have to be performed to estimate the premium structure for a statewide teacher program
  - Doesn't seem to be justified based on the potential impact on the larger divisions



# Is the Employee's Share the Issue?

- As we have seen, the premium rates for TLC, all other school-based plans and the state employee plan are comparable
- There is significant difference in how school divisions split their cost between the employer and employee share which may result in some of the concerns that have been raised





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# Where Do We Go From Here?

- A potential enhancement within the current system could be to promote awareness of the existing TLC Program
  - Conversations with some school divisions indicated that they were unaware of the program's existence
- Several policy questions would need to be addressed if the General Assembly considers adopting a modified Statewide Teacher Health Insurance Model
  - Mandatory versus Optional
    - Most states make participation optional which is consistent with Virginia's current Local Choice Program
    - JLARC report stated many localities do not participate in the Local Choice Plan because they were able to get better contract prices that satisfies their individual needs on their own
    - JLARC also raised concerns about the constitutionality of mandating participation to school boards
  - Should all groups be pooled into a single plan with one set of rates or should they be rated separately
    - Current TLC plan establishes different premiums for each group
    - Pooling groups will result in winners and losers